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CENTRAL INTELLIGENCE AGENCY

Memorandum



THE SITUATION IN VIETNAM

State Department review
completed

Information as of 1600
14 September 1966

PREPARED FOR THE NATIONAL SECURITY COUNCIL
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Approved For Release 2004/12/01 : CIA-RDP79T00826A001200010041-7

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HIGHLIGHTS

South Vietnam may have turned the corner in meeting its problem with inflation. Both the free market value of the piaster and the consumer price index showed a significant decline during the month of August. The economic measures instituted by the government have raised the cost of living in the Saigon area but have not radically affected prices in the provinces.

I. The Military Situation in South Vietnam:
Viet Cong guerrillas attacked a Vietnamese motor pool six miles north of Saigon on 14 September causing at least one million dollars damage (Para. 1). US troops participating in Operation THAYER in Binh Dinh Province reported light contact, with 15 Viet Cong killed (Para. 2). A total of 63 Communist troops have been killed since Operation SEWARD began in Phu Yen Province on 4 September (Para. 3). South Vietnamese soldiers suffered heavy casualties when an outpost was attacked by a Viet Cong force 25 miles south of Quang Ngai (Para. 6). Two new US Army Operations--ATLANTIC CITY and ATTLEBORT--have begun in areas northwest of Saigon (Paras. 7-8).

II. Political Developments in South Vietnam:
Economic data collected for the month of August indicates that the serious inflationary pressures of the first half of 1966 are lessening significantly (Paras. 1-3). Pork deliveries to Saigon fell off sharply again because of Viet Cong interdiction of transportation routes (Para. 4).

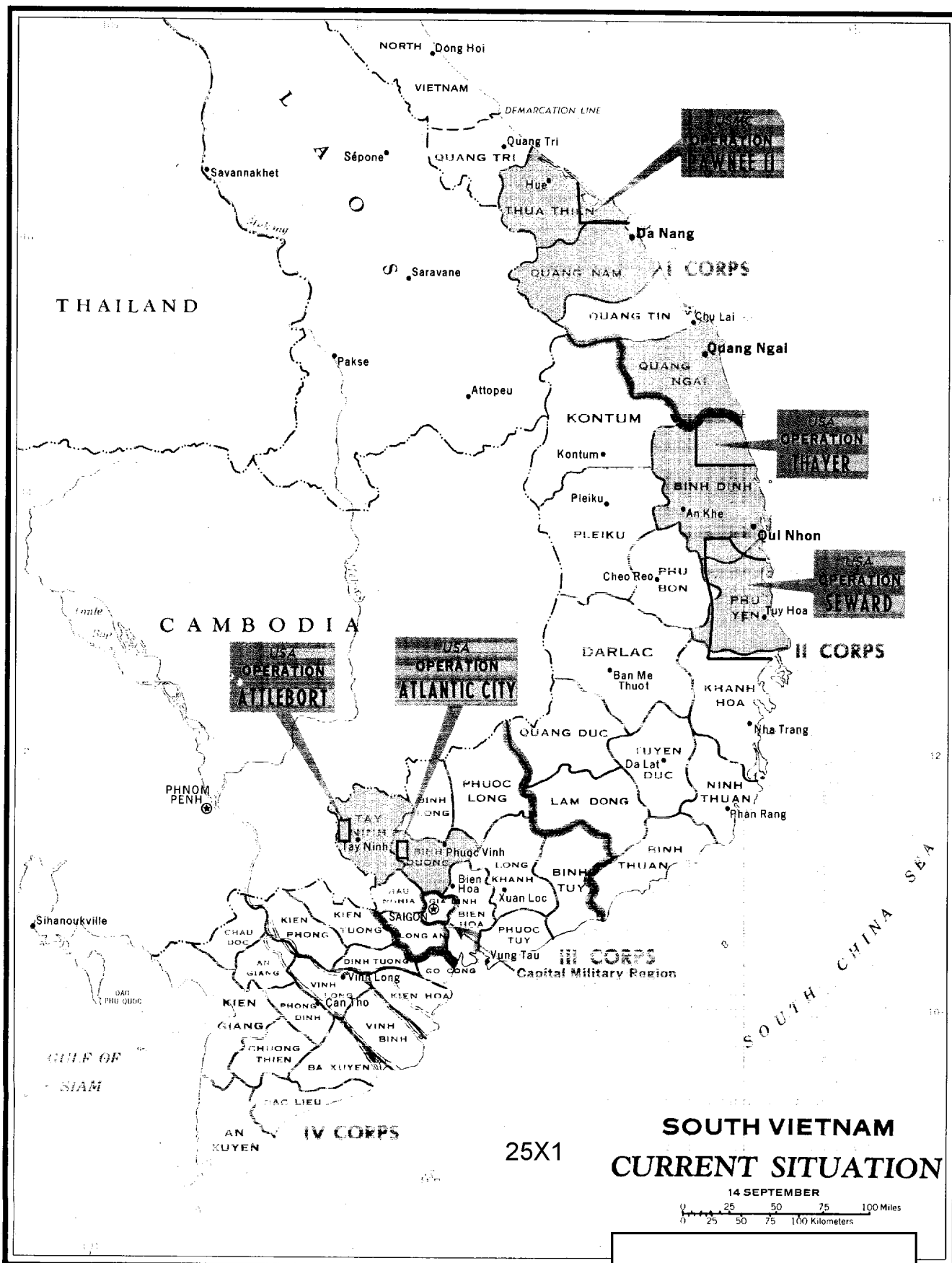
III. Military Developments in North Vietnam:
A US Navy A-1H was shot down by a SAM near Vinh (Para. 1) and a USAF F-105 was lost to ground fire northeast of Haiphong (Para. 2).

IV. Other Communist Military Developments:
There is nothing of significance to report.

V. Communist Political Developments: Peking's continuing concern with internal affairs is indicated by its slow reaction to events in Vietnam and abroad (Paras. 1-2). A DRV economic delegation has signed an aid agreement in Hungary (Para. 3).

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I. THE MILITARY SITUATION IN SOUTH VIETNAM

1. An estimated 150 Viet Cong guerrillas attacked a civilian motor pool six miles north of Saigon early on 14 September. Early reports indicate that more than one million dollars in damage was inflicted by grenades or satchel charges. The administration building and more than 50 trucks were destroyed. The motor pool, owned by South Vietnamese, was under military contract and under guard of Vietnamese militiamen. Initial casualty reports list two South Vietnamese truck drivers killed and several wounded.

2. US soldiers participating in Operation THAYER in the coastal flatlands of northeastern Binh Dinh Province reported killing 15 Communist troops and capturing 16 others on 13 September. A total of 16 Americans were wounded and one US helicopter was shot down and destroyed during the helicopter assault in an area about 43 miles northwest of Qui Nhon. This operation, which began on 12 September, is seeking elements of the 610th "Yellow Star" North Vietnamese/Viet Cong Division reported to be operating in the area.

3. Elements of the US 101st Airborne Division, participating in Operation SEWARD in coastal Phu Yen Province, reported light contact with an enemy force while clearing a village about 56 miles south of Qui Nhon. Only one American was wounded in the action while nine Viet Cong bodies were found. A total of 63 Viet Cong have been killed since this operation began on 4 September.

4. Early on 14 September, an ambush force of eight US Marines and 25 South Vietnamese engaged an estimated platoon-size enemy force about 13 miles southeast of Da Nang in Quang Nam Province. In the ensuing battle, two Americans were killed and four wounded and nine South Vietnamese soldiers killed and five wounded. Enemy casualties totaled seven killed.

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5. Also early on 14 September in the same area, a US Marine battalion command post was attacked with about 13 rounds of 60-mm. mortar fire. One American was wounded. Little damage to the post facilities was reported.

6. A Communist force of unknown size attacked an outpost of a South Vietnamese company about 25 miles south of Quang Ngai in Quang Ngai Province on 12 September. The South Vietnamese, reinforced with additional forces, held the post and the enemy withdrew. Reported casualties were 31 South Vietnamese killed and 32 wounded. Viet Cong losses were reported as four killed.

7. One battalion of US Army troops began Operation ATLANTIC CITY yesterday in Binh Duong Province. The purpose of this operation is to provide security for an airstrip which is about 40 miles northwest of Saigon.

8. In an area of Tay Ninh Province about 60 miles northwest of Saigon, US soldiers began Operation ATTLEBORT on 14 September. This search-and-destroy operation is being conducted by one battalion of the US 1st Infantry Division.

9. Operation PAWNEE II ended on 14 September following six days of operation in Thua Thien Province. This operation--conducted by one US Marine battalion--resulted in two Americans wounded and three Viet Cong killed.

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II. POLITICAL DEVELOPMENTS IN SOUTH VIETNAM

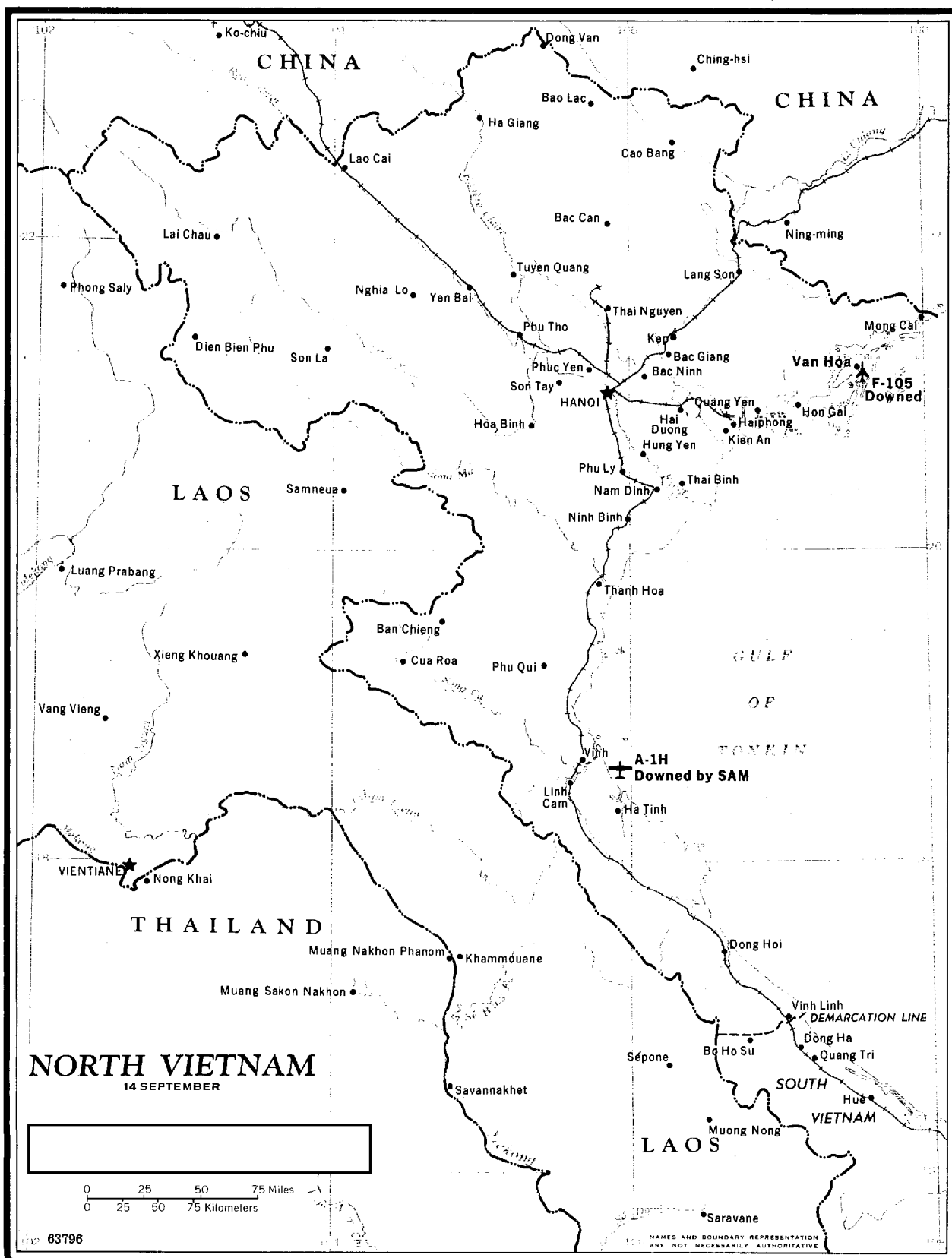
1. According to a recent Saigon report, data compiled during the month of August offers evidence that the fragile economic situation is showing signs of stabilizing. One of the key indicators, the working-class consumer price index (Base 1959 = 100), declined during the month for the first time since February 1966. That index, which reflects prices mainly in Saigon, fluctuated during the past four months as follows: May - 198, June - 217, July - 259, August - 255.

2. Another hopeful sign during August was a decrease in the free market piaster value of US \$10.00 from 204 in July to 167 in August, which is at about the same level as last March. Also indicative of reduced inflationary pressures was the fact that the rise in the money supply from June to July was significantly less than that in previous months.

3. The higher cost of living has been felt primarily by the workers, civil servants, and military personnel around the Saigon area rather than by provincial farmers. There has been a price squeeze in most of the provinces, but it has not been as severe as that in Saigon. In order to lessen future inflationary factors, Saigon planners are considering countermeasures to deal with economic pressures associated with an increasing US military commitment. The proposal to move large numbers of US headquarters and support troops to a US compound outside Saigon has been well received and will probably be implemented. This measure should reduce the flow of US dollars into Saigon and also lower the severe inflationary pressure on housing rentals.

4. Meanwhile, the price of pork bellies per kilogram rose sharply in Saigon on 12 September, according to the US Embassy. The sudden increase was the direct result of a cessation of pig deliveries to the capital during the weekend because of Viet Cong interdiction of several bridges between Saigon and the delta. The price increase is expected to last for a day or so pending repairs and resumption of pork deliveries, which had been moving well in late August and early September.

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III. MILITARY DEVELOPMENTS IN NORTH VIETNAM

1. A US Navy A-1H was shot down by a surface-to-air missile (SAM) near Vinh on 14 September while performing an armed reconnaissance mission. Wingmen reported that the plane crashed in the sea with no indication of pilot survival. The propeller-driven Skyraider is the 31st US plane believed to have been downed by missile fire over North Vietnam since the introduction of the SAM system in July 1965. The Soviet-supplied SA-2 missiles have been less successful than expected, accounting for only 8% of US combat air losses over the DRV.

2. A US Air Force F-105D has been reported down in the vicinity of the North Vietnamese naval facility at Van Hoa. The Thunderchief was apparently brought down by 57-mm. fire and the pilot has been rescued in good condition.

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IV. OTHER COMMUNIST MILITARY DEVELOPMENTS

1. There is nothing of significance to report.

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V. COMMUNIST POLITICAL DEVELOPMENTS

1. Peking's continuing concern with internal affairs is reflected by the low volume of coverage given to Vietnam in its propaganda broadcasts and by its slow reaction to foreign policy developments in general. Chinese comment on the South Vietnamese elections came three days after the event. Peking took a week to protest a US air attack on Chinese cargo ships in the Tonkin Gulf which allegedly occurred on 29 August. The Chinese have still not commented on President de Gaulle's 1 September speech dealing with Vietnam.

2. Only nine percent of Communist China's propaganda broadcasting during August 1966 was concerned with the Vietnam war. In July, 35 percent of all broadcasting had been concerned with the situation in Vietnam. In September, the percentage has continued to decline. The few foreign policy pronouncements emanating from Peking do not indicate any change in China's attitude toward the war in Vietnam, nor is there any evidence of heightened concern about the possibility of war between China and the United States.

North Vietnamese Delegation in Hungary

3. The economic delegation headed by North Vietnamese politburo member Le Thanh Nghi signed an aid agreement with the Hungarian Government on 13 September as part of its current tour of Communist countries in search of economic assistance. According to the agreement, Hungary will assist North Vietnam through "a long-term, no-interest loan, and other matters pertaining to the training of Vietnamese technicians in Hungary." Prior to arriving in Budapest, the delegation signed similar aid agreements in Peking and Pyongyang and made a brief stopover in Moscow. The North Vietnamese economic group is now en route to Bulgaria.

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